

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ADP-00 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-15 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 ABF-01 FS-01 L-03 RSR-01 H-02 INT-08 SCEM-02

SAJ-01 TAR-02 AF-10 NEA-10 AGR-20 PA-03 PRS-01 USIA-12

FMC-04 CG-00 DOTE-00 /226 W
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R 251535 Z APR 73

FM AMEMBASSY BONN

TO SECSTATE WASHDC 4672

INFO AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

C O N F I D E N T I A L BONN 5944

DEPARTMENT PASS TREASURY

E. O. 11652: GDS

TAGS: EFIN, ETRD, GW

SUBJECT: MOVES TO COUNTER DOLLAR DEVALUATION (C- ER-3-57235)

REF: (A) STATE 70706, (B) STUTTGART 0150

1. SUMMARY: IN RESPONSE TO DOLLAR DEVALUATION, FRG HAS INSTITUTED
NO NEW EXPORT PROMOTION PROGRAMS NOR ANY NEW METHODS OF
RESTRICT-
ING IMPORTS, BUT HAS WELCOMED DOLLAR DEVALUATION/ DM REVALUATION
AS WEAPON IN FIGHT AGAINST INFLATION. DOLLAR DEVALUATION POSES
LITTLE HARDSHIP FOR MOST FRG INDUSTRIES. END SUMMARY.

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2. THE FRG HAS INSTITUTED NO NEW EXPORT PROMOTION PROGRAMS TO COUNTER DOLLAR DEVALUATION. HOWEVER, THE FRG COAL INDUSTRY MAY RECEIVE FURTHER GOVERNMENT SUBSIDIZATION TO COUNTER DEVALUATION/ REVALUATION EFFECTS. FRG GRIPPED IN AN INFLATIONARY CYCLE, PARTIALLY CAUSED BY EXCESS DEMAND, AND SEES THE UPWARD VALUATION OF THE DM AS ONE WEAPON IN FIGHT AGAINST INFLATION.

3. THE FRG HAS NOT INSTITUTED ANY NEW METHODS OF RESTRICTING IMPORTS. CONSIDERABLE PRESSURE IN FRG IN FAVOR OF GENERAL LOWERING OF INDUSTRIAL TARIFFS. FRG HAS AT TIMES PRESSED FOR LOWER TARIFFS AS INFLATION FIGHTING MOVE IN THE EEC.

4. GERMAN EXPORTERS HAVE BROUGHT SOME PRESSURE ON THE GOVERNMENT TO MAKE FRG EXPORT CREDIT PROGRAMS MORE COMPETITIVE WITH THOSE OF OTHER COUNTRIES. HOWEVER, LITTLE SIGN TO DATE OF FRG MOVEMENT IN THIS DIRECTION.

5. INDUSTRY: IT IS STILL TOO EARLY TO ASCERTAIN THE EFFECTS OF THE DOLLAR DEVALUATION AND DM REVALUATION ON GERMAN EXPORTS AND IMPORTS. IN GENERAL, HOWEVER, GERMAN INDUSTRY DOES NOT SEEM WORRIED BECAUSE:

- A. GERMAN INDUSTRY IS OPERATING NEAR CAPACITY,
- B. FRG DOMESTIC DEMAND CONTINUES TO EXPAND,
- C. OUTSIDE OF ITALY AND GREAT BRITAIN, THE DM IS FLOATING JOINTLY WITH THE CURRENCIES OF THE OTHER VERY IMPORTANT EUROPEAN TRADING PARTNERS,
- D. THE ECONOMIES OF THESE COUNTRIES CONTINUE TO EXPAND RAPIDLY, AND
- E. THE REVALUATION OF THE JAPANESE YEN HAS PLACED IMPORTANT COMPETITORS IN THIRD MARKET COUNTRIES AT AN EVEN GREATER DISADVANTAGE.

6. THE DEVALUATION/ REVALUATION, THOUGH, POSES POTENTIAL HARDSHIPS FOR THE FRG AUTO, ALUMINUM, MACHINE GOODS, COAL, CHEMICAL, AND STEEL INDUSTRIES, FOR WHICH THE US MARKET AND/ OR OTHER MARKETS IN DIRECT COMPETITION WITH US GOODS HAVE BEEN AN IMPORTANT SEGMENT OF THEIR OUTPUT. THESE INDUSTRIES' REACTIONS ARE NOT YET FIRM AND WILL DEPEND UPON (A) DEMAND IN THE FRG, EC, AND THE US, (B) THE RATE OF INFLATION IN THE US AND (C) THE ABILITY AND DESIRES OF US EXPORTERS TO EXPAND THEIR EXPORT MARKETS AND PASS ON THE EFFECTS OF THE DOLLAR DEVALUATION.

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7. IT HAS ALSO BEEN POINTED OUT TO US BY SOME INDUSTRIALISTS THAT CHEAPER RAW MATERIAL IMPORTS (IN TERMS OF DM), THE BENEFIT OF WHICH HAS NOT BEEN FULLY PASSED ON TO THE GERMAN CONSUMER, ALLOWS FIRMS SOME FLEXIBILITY IN EXPORT PRICING WITHOUT AFFECTING

THEIR OVERALL PROFIT PICTURE.

8. SOME INDICATION OF INDUSTRY REACTION IS PROVIDED BY THE RECENT ACTION OF DAIMLER- BENZ (SEE REFTEL B) AND BY THE PRICE INCREASES IN THE US ANNOUNCED BY VOLKSWAGEN WHICH DO NOT COVER THE FULL AMOUNT OF THE DOLLAR DEVALUATION/ DM REVALUATION. THE DEVALUATION/ REVALUATION COMBINED WITH INCREASING COSTS AND LABOR SHORTAGES IN THE FRG MAY ALSO RESULT IN MORE FRG FOREIGN DIRECT INVESTMENT IN THE FUTURE.

9. THE DOLLAR DEVALUATION PARTICULARLY AFFECTED THE GERMAN SHIP- BUILDING INDUSTRY SINCE MOST CONTRACTS WERE DENOMINATED IN DOLLARS. HILLENBRAND

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SECSTATE WASHDC
THE HAGUE

TOKYO

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